

In the Matter of the Compliance Filings
Regarding the Rates of MCI
Telecommunications Corporation Pursuant to
Minn. Rules, Parts 7827.0100 to 7827.0600,
Relating to Rate Adjustments Due to the Tax
Reform Act of 1986

ISSUE DATE: NOVEMBER 2, 1987

DOCKET NO.P-443/M-87-443
ORDER REQUIRING FILING

PROCEDURAL HISTORY

On June 29, 1987, the Minnesota Public Utilities Commission's (the Commission) permanent rules relating to rate adjustments due to the Tax Reform Act of 1986 (TRA), Minn. Rules, parts 7827.0100 to 7827.0600, became effective. The rules state that on and after July 1, 1987, overall rates of public utilities and telephone companies are unjust and unreasonable unless their rates have been adjusted to account for the reduction in federal income tax expense under Minn. Rules, part 7827.0400 or certain alternative conditions have been met.

On July 14, 1987, MCI Telecommunications Corporation (MCI or the Company) submitted a letter to the Commission asking that it be exempted from reducing its rates and complying with Minn. Rules, parts 7827.0400-7827.0600 because the TRA would increase MCI's federal and state income tax liability and effective tax rate.

In a letter filed with the Commission on July 22, 1987, the Residential Utilities Division of the Office of the Attorney General (RUD-AG) asked MCI to provide information to substantiate its claim. In a letter dated October 5, 1987, the RUD-AG acknowledged receipt of information from MCI including its 1986 Annual Report. The RUD-AG stated that it did not intend to pursue this issue further as it appears that MCI suffered a net revenue loss and, thus, the tax changes would not result in overearning by the Company.

FINDINGS AND CONCLUSIONS

The Commission must determine whether MCI has complied with the Commission's rules relating to the rate adjustments due to the

serving 15,000 or more subscribers. Minn. Stat. section 237.01, subd. 2 defines a telephone company as "any person, firm, association or any corporation . . . owning or operating any telephone line or telephone exchange for hire wholly or partly within this state, or furnishing any telephone service to the public." The Commission concludes that by definition MCI is subject to the rule.

The Commission must next determine whether MCI has met its responsibilities under the Commission's tax rule.

Minn Rules, part 7827.0200 states that the purpose of the tax rule is to ". . . require telephone companies and public utilities to adjust rates for service in Minnesota to recognize the reduction in operating costs attributable to the reductions in federal corporate income taxes as a result of the tax reform act." So far, MCI has asserted to the Commission that the TRA will increase its federal and state income tax liability and effective tax rates rather than reduce them and, thus, the Company's rates should not be adjusted under the Commission's tax rules. The Commission finds that this statement in itself is not a sufficient showing that MCI has complied with the Commission's tax rule. The Commission is sympathetic to MCI's argument in principle. However, the Commission needs proof that MCI, in fact, has not had a reduction in operating costs attributable to the reductions in federal corporate income taxes as a result of the TRA, a reduction that would require the Company's rates to be adjusted. Recently, MCI provided some additional information regarding its financial status to the RUD-AG. The Commission notes that it has not received this information.

The Commission will order that within 14 days of the issuance of this Order, the Company provide to the Commission information or any other relevant data to support its position that it is in compliance with either the letter or the spirit of the rule or, otherwise, show cause why it should not be held in violation of Minn. Rules, parts 7827.0100 through 7827.0600.

submit a filing to the Commission with data and information substantiating its claim that its rates do not need to be adjusted pursuant to the Commission's Rules Relating to Rate Adjustments Due to the Tax Reform Act of 1986, Minn. Rules, parts 7827.0100 to 7827.0600 or show cause why it should not be held in violation of those rules.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)